

Message Text

CONFIDENTIAL

PAGE 01 MANAMA 00964 01 OF 02 181458Z

53

ACTION NEA-10

INFO OCT-01 EUR-12 ISO-00 CIAE-00 PM-04 H-02 INR-07 L-03

NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06

AID-05 EB-07 CIEP-01 TRSE-00 STR-04 OMB-01 CEA-01

COME-00 FRB-03 XMB-02 OPIC-03 LAB-04 SIL-01 FEA-01

ERDA-05 FPC-01 INT-05 /113 W
----- 055712

R 181114Z JUL 76

FM AMEMBASSY MANAMA BAHRAIN
TO SECSTATE WASHINGTON DC 3252
INFO AMEMBASSY ABU DHABI UAE
AMCONSUL DHAHRAN SAUDI ARABIA
AMEMBASSY DOHA QATAR
AMEMBASSY JIDDA SAUDI ARABIA
AMEMBASSY LONDON ENGLAND
AMEMBASSY MUSCAT OMAN
AMEMBASSY TEHRAN IRAN
SECDEF WASHINGTON DC
CNO WASHINGTON DC
USCINCEUR VAIHINGEN GE
CINCUSNAVEUR LONDON UK
COMIDEASTFOR

C O N F I D E N T I A L SECTION 1 OF 2 MANAMA 0964

SECDEF FOR ISA

E.O. 11652: GDS

TAGS : EFIN, ECON, EAID, MASS, MPOL, BA

SUBJECT : BAHRAIN'S FINANCIAL PLIGHT

SUMMARY: WITH OIL INCOME LIKELY TO DECLINE AND THE COST OF
MODEST PUBLIC WELFARE AND DEVELOPMENT PROGRAMS RISING, BAHRAIN
IS FACING A FINANCIAL SQUEEZE. CAREFULLY HUSBANDED RESERVE
FUNDS FACE HEAVY CAPITAL COMMITMENTS. ANY BIG SPENDING SCHEMES
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 MANAMA 00964 01 OF 02 181458Z

WILL REQUIRE ADDITIONAL SOURCES OF FUNDS. UNLEUS THE AL KHALIFA

REGIME IS WILLING TO GO DOWN THE POLITICALLY TRICKY PATH OF TAXATION AT HOME, IT MUST CONTINUE TO RELY ON FINANCING FROM ABROAD, NOTABLY FROM RICHER GULF NEIGHBORS. WE ARE CONFIDENT BAHRAIN WILL CONTINUE TO SPEND IN THE CIVILIAN SECTOR MORE OR LESS WISELY. BUT AS THE PRESSURES TO JOIN THE GULF ARMS RACE GROW, WE HOPE IDEAS FOR MILITARY SPENDING WILL CONTINUE TO BE JUDGED ON REAL NEED, BY ALL PARTIES CONCERNED. END SUMMARY.

1. DESPITE THE PWANNED \$25 MILLION DEFICIT IN THE CURRENT STATE BUDGET IT IS UNLIKELY BAHRAIN WILL HAVE TO DIP INTO ITS LIMITED STATE RESERVES TO COVERIBUDGETED RECURRENT AND DEVELOPMENT EXPENSES THIS YEAR. AS IN THE OTHER YEARS FOLLOWING THE 1973 WINDFALL INCREASE IN OIL INCOME, THE GOVERNMENT MIGHT EVEN EXPERIENCE THE UNACCUSTOMED LUXURY OF BEING UNABLE TO SPEND ALL ITS DEVELOPMENT BUDGET BY YEAR'S END. HENCE, POSSIBLY FOR THE LAST TIME IN THE FORESEEABLE FUTURE, BAHRAIN MAY BE ABLE TO BEEF UP ITS STATE RESERVES, PERHAPS TO THE \$300 TO \$400 MILLION LEVEL.

2. BUT THIS NARROW ACCOUNTING DISGUISES THE TIGHT FINANCIAL SITUATION BAHRAIN FACES. THE CURRENT BUDGET, ALMOST 10 PERCENT FINANCED BY "FOREIGN AID" FROM ABU DHABI, REPRESENTS A TOUGH SWEATING DOWN OF THE FAIRLY MODEST RECURRENT EXPENSE DEMANDS OF THE GOVERNMENT'S "BIG SPENDERS" -- EDUCATION, HEALTH, AND DEFENSE/PUBLIC SECURITY. IN 1977 AND BEYOND THESE EXPENDITURES WILL GROW, IF ONLY TO COVER THE RISING REMUNERATION OF GOVERNMENT EMPLOYEES. EVEN THE LIKELY SHORT-FALL IN THIS YEAR'S DEVELOPMENT SPENDING IS A VERY MIXED BLESSING FOR IT REPRESENTS THE BOOKKEEPING SAVING OF TODAY'S DELAY IN PROJECTS TO BE COMPLETED TOMORROW AT EVEN GREATER ACTUAL COST.

3. EVEN IN THE NARROW FOCUS OF THE STATE BUDGET BAHRAIN IS IN FINANCIAL STRAITS. ON THE REVENUE SIDE OIL INCOME (75 PERCENT OF THIS YEAR'S PLANNED REVENUES) IS DECREASING. AT PRESENT, THE GOB IS TAKING IN ABOUT 1 MILLION A DAY FROM THE BAPCO (CALTEX) CONCESSION (60/40 "PARTICIPATION") AND ITS HALF SHARE OF ARAMCO'S ABU SAFAH FIELD. BUT BAPCO PRODUCTION IS DOWN TO 56,000 B.P.D. AND DECLINING. UNTIL RECENTLY BAHRAIN HOPED THAT ABU SAFAH PRODUCTION WOULD REACH AND SUSTAIN THE 120 THOUSAND B.P.D. LEVEL. NOW THESE HOPES SEEM BLIGHTED. FOR TECHNICAL REASONS ABU SAFAH, PRESENTLY YIELDING LESS THAN 100 THOUSAND

CONFIDENTIAL

PAGE 03 MANAMA 00964 01 OF 02 181458Z

B.P.D. AFTER SOME DIPS TO HALF THAT OVER THE LAST YEAR, SEEMS ON THE SAME PATH OF DECLINING PRODUCTION AS THE BAPCO FIELDS. (COMMENT: GOB OFFICIALS ADMIT READILY THAT ABU SAFAH IS A FIELD WHICH BOTH ARAMCO AND SAUDI ARABIA COULD BETTER IGNORE FROM A STRICTLY ECONOMIC STANDPOINT AND THAT THE EFFORT TO SUSTAIN ITS PRODUCTION IS A POLITICALLY MOTIVATED SAUDI GESTURE TO BAHRAIN. END COMMENT.) THUS BAHRAIN HAS NO PROSPECTS OF KEEPING ITS OIL INCOME UP TO PRESENT LEVELS EXCEPT THROUGH FUTURE OPEC

PRICE INCREASES OVER WHICH BAHRAIN WILL HAVE NO INFLUENCE OR FINDING MORE MARKETABLE OIL, AN UNCERTAIN ASPIRATION FOCUSED ON OFF-SHORE AREAS PRESENTLY IN DISPUTE WITH QATAR. (COMMENT: IF THE PRESENT 60/40 "PARTICIPATION" ARRANGEMENT WITH BAPCO IS ANY GUIDE, THE EVENTUAL MOVE TO 100 PERCENT PARTICIPATION WILL YIELD BAHRAIN RETROACTIVE REVENUE WHICH AT BEST WILL COVER THE COST OF BUYING OUT BAPCO'S REMAINING 40 PERCENT SHARE OF THE FIELDS, AND FUTURE INCREASES IN REVENUE FROM THE 100 PERCENT ARRANGEMENT WILL BE NEGLIGIBLE. END COMMENT)

4. IF THE STATE BUDGET WERE THE WHOLE STORY, THE ABOVE SITUATION SHOULD NOT DISMAY BAHRAIN LEADERS, WHO FOR FORTY YEARS OF OIL "WEALTH" PRIOR TO 1973 AND 3000 YEARS OF PEARL "WEALTH" BEFORE, HAVE GOTTEN BY FAIRLY WELL ON MUCH LESS THAN THE RELATIVELY DAZZLING FIGURES OF THIS YEAR'S BUDGET. THEIR PROBLEM IS THAT THE BUDGET IS BUT HALF THE TALE: MUCH OF BAHRAIN'S PRESENT PUBLIC DEVELOPMENT IS "EXTRA BUDGET" AND HEAVILY DEPENDENT ON THE REGIONAL DOLE. OUTSIDE THE BUDGET THE KUWAITIS (AND RECENTLY THE SAUDIS) ARE PAYING FOR BADLY NEEDED SCHOOLS AND HEALTH CENTERS. OVER THE NEXT DECADE THE BAHRAINIS RECKON (MODESTLY WE THINK) THEY MUST HOUSE 30,000 FAMILIES. REGIONAL COST-OF-LIVING PRESSURES MAKE THIS A REALISTIC POLITICAL IMPERATIVE, AND ABOUT HALF THE HOUSING WAS URGENTLY NEEDED YESTERDAY. (COMMENT: THE AMIR OF BAHRAIN PIONEERED LOW-INCOME HOUSING IN THE ARABIAN PENINSULA OVER FIFTEEN YEARS AGO, BUT RAN OUT OF DOUGH FROM 1970-1975. END COMMENT.) THE TAB COULD EXCEED \$1 BILLION, AND BAHRAIN'S RESOURCES ARE GOOD FOR BUT HALF OF IT. (KING KHALID OF SAUDI ARABIA HAS ALREADY OFFERED TO PUT UP \$100 MILLION AS A FIRST TRANCHE TOWARD HELPING OUT.) THEN THERE ARE SEWER SCHEMES AND POWER/WATER PROJECTS AND

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 MANAMA 00964 02 OF 02 181451Z

53

ACTION NEA-10

INFO OCT-01 EUR-12 ISO-00 CIAE-00 PM-04 H-02 INR-07 L-03

NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06

AID-05 EB-07 CIEP-01 TRSE-00 STR-04 OMB-01 CEA-01

COME-00 FRB-03 XMB-02 OPIC-03 LAB-04 SIL-01 FEA-01

ERDA-05 FPC-01 INT-05 /113 W
----- 055701

R 181114Z JUL 76
FM AMEMBASSY MANAMA BAHRAIN
TO SECSTATE WASHINGTON DC 3253
INFO AMEMBASSY ABU DHABI UAE
AMCONSUL DHAHRAN SAUDI ARABIA
AMEMBASSY DOHA QATAR
AMEMBASSY JIDDA SAUDI ARABIA
AMEMBASSY LONDON ENGLAND
AMEMBASSY MUSCAT OMAN
AMEMBASSY TEHRAN IRAN
SECDEF WASHINGTON DC
CNO WASHINGTON DC
USCINCEUR VAIHINGEN GE
CINCUSNAVEUR LONDON UK
COMIDEASTFOR

C O N F I D E N T I A L SECTION 2 OF 2 MANAMA 0964

SECDEF FOR ISA

SENSIBLE PLANS FOR MODEST INDUSTRIAL EXPANSION AROUND THE ALUMINUM SMELTER AND OAPEC DRYDOCK PILLARS -- AND THE CONSTANT RISE IN DEMAND FOR PUBLIC SERVICES. THERE IS ALSO A MULTI-HUNDRED MILLION DOLLAR CAUSEWAY TO SAUDI ARABIA WHICH THE SAUDIS HAVE APPFGENTLY AGREED TO FINANCE.

5. BAHRAIN'S VENTURE IN ALUMINUM SMELTING STULL SEEMS TO HAVE BEEN WISE: IT MIGHT EVEN MAKE SOME MONEY SOMETIME SOON. BUT
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 MANAMA 00964 02 OF 02 181451Z

IN THE PROCESS THE GOVERNMENT HAS ACQUIRED 80 PERCENT OWNERSHIP (17 PERCENT U.S. KAISER) OF A QUARTER BILLION DOLLAR INVESTMENT WHICH IS BUT 10 PERCENT CAPITALIZED, THE REST DEPENDENT ON SHORT TERM LOANS ARRANGED THROUGH LOCAL BANKS. THE NEED TO IMPROVE THE CAPITAL STRUCTURE OF ALBA IS URGENT AND COSTLY. THE ANTIQUE BUT IMPORTANT 250,000 B.P.D. BAPCO REFINERY, PRESENTLY 100 PERCENT OWNED BY CALTEX AND WITH A REPLACEMENT VALUE AROUND \$1 BILLION, IS A POLITICAL TARGET FOR BAHRAINI "PARTICIPATION", BUT THE GOVERNMENT DOES NOT HAVE THE CASH TO TAKE ON THIS ECONOMICALLY UNATTRACTIVE INVESTMENT. THEN THERE IS THAT DEMANDING COLLECTION OF JOINT GULF ARAB EFFORTS, STARTING WITH THE CAPITAL-INTENSIVE GULF AIR AND INCLUDING THE OAPEC SCHEMES, IN WHICH BAHRAIN MUST PAY ITS WAY. THUS THE STATE RESERVE IS BARELY ADEQUATE TO MEET PRESENT AND ANTICIPATED CAPITAL PARTICIPATION REQUIREMENTS, AND IN REALITY BAHRAIN HAS NOTHING EXTRA SAVED FOR THE RAINY DAYS AHEAD.

6. THE IMPLICATIONS FOR THE GOVERNMENT SEEMS CLEAR. IT CAN

SUSTAIN A MODEST SPENDING PROGRAM FOR IMPROVING PUBLIC INFRA-STRUCTURE AND SERVICES RELYING ON ANTICIPATED REVENUES. IMPROVED MANAGEMENT OF LIMITED RESOURCES WILL BE REQUIRED, AND HERE OUR ANTICIPATED A.I.D. ADVISORS CAN HELP. BAHRAIN IS STILL FREE TO SPEND MILLIONS, BUT NOT TENS OF MILLIONS, AS IT CHOOSES -- FOR SCHOOLS, COMMODITY SUBSIDIES, MORE PUBLIC HOUSING, AND EVEN FOR VERY MODEST EQUIPMENT PURCHASES TO UPGRADE INTERNAL SECURITY FORCES.

7. BUT FOR ANY BIG SPENDING SCHEMES, WHICH HERE MEANS TENS OF MILLIONS, BAHRAIN WILL NEED ADDITIONAL FINANCING. THE GENEROSITY OF BAHRAIN'S AFFLUENT NEIGHBORS IS FORTUITOUS AND ALREADY DEMONSTRATED. THE AL KHALIFA RULERS OF BAHRAIN DO NOT LIKE GOING KAFIYAH IN HAND TO NEIGHBORS, BECAUSE THEY REALIZE IN SO DOING THEY LOSE FREEDOM OF ACTION IN FOREIGN, AND TO SOME EXTENT, DOMESTIC AFFAIRS. BUT GO THEY MUST, FOR THE ALTERNATIVE IS TO TRY TO RAISE MONEY AT HOME BY TAXES, AND THIS WOULD RAISE COMPLICATED POLITICAL PROBLEMS.

8. HENCE BAHRAIN IS GOING TO HAVE TO WEIGH VERY CAREFULLY THE REAL NEED FOR ANY COSTLY PROJECTS -- AND SO SHOULD THE POTENTIAL LEADERS. ON THE BASIS OF THE PAST, THERE IS REASON TO BELIEVE THE GOVERNMENT WILL SPEND WHAT IT MUST FOR CIIL DEVELOPMENT
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 MANAMA 00964 02 OF 02 181451Z

AND DO SO MORE OR LESS WISELY BUT AS TO MILITARY SPENDING BAHRAIN'S EXEMPLARY RESTRAINT TO DATE SHOULD NOT DISGUISE THE STRONG PRESSURE BUILDING UP WITHIN THE RULING FAMILY TO JOIN THE GULF ARMS RACE. AS PLANS TO SPEND HEAVILY ON DEFENSE EMERGE, WE HOPE ALL CONCERNED, INCLUDING THE USG, WILL GIVE THEM A HARD AND THOUGHTFUL LOOK.

BURLEIGH

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FINANCIAL CRISIS, ECONOMIC REPORTS
Control Number: n/a
Copy: SINGLE
Draft Date: 18 JUL 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: coburnhl
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976MANAMA00964
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: RR
Errors: N/A
Film Number: D760276-0965
From: MANAMA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760746/aaaabomk.tel
Line Count: 259
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION NEA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: coburnhl
Review Comment: n/a
Review Content Flags:
Review Date: 17 MAY 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <17 MAY 2004 by buchanta0>; APPROVED <09 SEP 2004 by coburnhl>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: : BAHRAIN'S FINANCIAL PLIGHT SUMMARY: WITH OIL INCOME LIKELY TO DECLINE AND THE COST OF
TAGS: EFIN, ECON, EAID, MASS, MPOL, BA
To: STATE SEC STATE ABU DHABI DHAHRAN DOHA JIDDA LONDON MUSCAT TEHRAN
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006